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United Nations

ECLAC

Economic Commission for Latin America and the Caribbean

PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN 2000

During 2000, the economies of Latin America and the Caribbean continued the recovery begun in the last quarter of 1998. Thanks to the performance of the two largest economies, the region's Gross Domestic Product (GDP) expanded at an average annual rate of 4% this year, up from 2.3% in 1998 and just 0.3% in 1999. The main motor of recovery was a rise in exports, given that domestic demand expanded less than was originally expected. The current account deficit fell from 3.1% of GDP in 1999 to 2.5% in 2000 and could be financed with capital inflows. Inflation rates fell to new lows and fiscal

deficits also fell. The disappointment of the year was the fact that higher growth rates were not accompanied by comparable improvements in the labour market, as unemployment remained at almost 9% and real wages rose little.

The international economy, which is always a key factor in the performance of Latin America and the Caribbean, showed contradictory tendencies in 2000. The high growth rate worldwide stimulated the region's exports, and intraregional trade also enjoyed a substantial recovery. But the trends in

(continued on page 3 ➡)

Latin America: Gross Domestic Product

(Percentage annual variation, based on figures in constant 1995 dollars)

	1995	1996	1997	1998	1999	2000 Estimate	2001 Projected
Argentina	-2.8	5.5	8.1	3.9	-3.4	0.0	1.5
Bolivia	4.7	4.4	5.0	5.5	0.6	2.0	3.0
Brazil	4.2	2.7	3.3	0.2	0.9	3.9	4.3
Chile	10.6	7.4	7.4	3.9	-1.1	5.6	5.5
Colombia	5.2	2.1	3.4	0.5	-4.3	3.0	3.5
Costa Rica	4.0	0.3	5.8	8.0	8.0	1.3	3.5
Dominican Rep.	5.0	7.1	8.9	8.2	8.3	8.5	6.0
Ecuador	2.3	2.0	3.4	0.4	-7.3	2.0	3.0
El Salvador	6.4	1.7	4.2	3.5	3.4	2.5	3.5
Guatemala	4.9	3.0	4.4	5.0	3.6	3.5	4.0
Honduras	4.1	3.6	5.1	2.9	-1.9	4.0	4.0
Mexico	-6.2	5.2	6.8	4.9	3.7	7.2	4.2
Nicaragua	4.3	4.8	5.1	4.1	7.0	5.5	4.5
Panama	1.8	2.8	4.5	4.4	3.0	2.5	4.0
Paraguay	4.7	1.3	2.6	-0.4	0.5	1.5	1.0
Peru	8.6	2.5	6.7	-0.4	1.4	4.0	2.5
Uruguay	-1.4	5.6	4.9	4.6	-3.2	-1.0	2.0
Venezuela	4.0	-0.2	6.4	0.2	-6.1	3.0	5.0
TOTAL	1.1	3.7	5.3	2.3	0.3	4.0	3.8

Source: ECLAC

THE ECONOMY OF LATIN AMERICA IN 2000

JOSÉ ANTONIO OCAMPO

The 20% rise in the value of exports clearly led the recovery of the economies of Latin America in 2000, with growth reaching 4%. The export boom was facilitated by the rapid growth of the United States and rising international prices for oil and minerals (unlike many farm products). Regional expansion was also compatible with additional progress toward reducing inflation. Most countries now have one-digit inflation, the best record in half a century. Similarly, governments were able to reduce budget deficits, in some cases by considerable amounts.

Mexico, which had an extraordinary year, together with Brazil, led regional growth. This was the first time since 1994 that expansion phases coincided in the two largest Latin American economies. Other countries with significant growth included the Dominican Republic, Belize, Chile, Cuba and Nicaragua. In contrast, during 2000 several South American countries were unable to recover fully from the 1999 recession.

Although the external environment favoured exports, capital markets did not fare as well. Once again, direct foreign investment provided most of the resources, but was down compared to the extraordinary amounts of 1999. Similarly, three and a half years after the financial disturbances generated by the Asian crisis, it is clear that international credit markets remain unstable, costs high, and average maturities low. The idea that today's

international financial crises are intense but short has thus been contradicted by the facts. For the second year in a row, capital flows were not enough to offset interest payments and profit remittances.

The main concerns arising from economic conditions during 2000 are found in unemployment and investment. Unemployment stagnated at high levels: about 9% on average compared to 6% a decade ago. Latin America's experience indicates that growth of over 4% is necessary to reduce unemployment rates. The investment rate remained low, under

"...growth at 3.5% to 4% annually...(is) clearly insufficient to reduce poverty, unemployment or the income gap with respect to industrialised countries..."

levels for 1994 and 1997, and well below figures for the 1970s, the most recent decade of rapid growth in Latin America. Uneven access to external credit and unfavourable conditions have been decisive factors in this performance, as is the caution that domestic financial intermediaries have shown when it comes to lending. This is particularly intense after domestic financial crises, which, unfortunately, were all too frequent in the decade that is coming to a close.

According to ECLAC's projections, 2001 will see a slight drop in the region's growth, to 3.8%. The slowdown of the Mexican economy, after its rapid growth in 2000, will not be offset by a significant acceleration in the rest of the region. Of course, this performance will depend, above all, on the materialization of the much-desired "soft landing" of the US economy and conditions in which that process does not unleash new sources of international financial instability. If these assumptions fail to materialise, the probability of a stronger deceleration of growth in Latin America is high.

Results in 2000 and projections for 2001 raise three fundamental issues for Latin America. First, growth has stabilised after reforms at the rather low levels—3.5 to 4% annually—, clearly insufficient to reduce poverty, unemployment or the income gap with respect to industrialised countries at an adequate pace. Prior to the debt crisis of the 1980s, growth ran for three decades at 5.5% a year: this should be the region's benchmark. Second, the generation of employment has remained weak and biased towards skilled labour, generating high unemployment and rising income gaps. Third, external vulnerability, particularly to capital account shocks, has remained extremely high. These are the three basic weaknesses in the growth process that must be the focus of attention in the immediate future.

The author is ECLAC's Executive Secretary.

commodity prices were uneven: oil rose 60% and minerals 8%, while some agricultural products suffered from falling prices. Except for direct foreign investment flows, the liquidity available to the region was limited and the terms onerous. International financial markets were highly volatile, driven mainly by sharp swings on the stock markets of the United States.

The value of regional exports of goods and services rose 20%, while imports rose 17%. However, trends in Venezuela, the main oil exporter, masked trade deficits in many other countries. In terms of capital flows, Venezuela also showed a very different pattern, with large outflows, while other countries (except Ecuador and Paraguay) continued to register positive inflows. The region's total is expected to reach about US\$ 52 billion, compared to US\$ 40 billion in 1999. The rise was due mainly to increases in Brazil, which more than offset lower capital flows into Argentina.

The main source of capital inflows continued to be direct foreign investment, as bond issues went to financing debt that was coming due. Most were placed during the first quarter or in July. Average interest rates were high, 11.5%, during the first eight months, rising to 13% toward year's end. Bank loans and investment in local stock markets made little contribution to total capital inflows.

Monetary policy became less restrictive, especially in those countries that adopted floating regimes. The money supply recovered somewhat from its deceleration in 1999 and interest rates fell slightly, although lack of credit continued to undermine the recovery process. At the same time, fiscal policy was tighter, as deficits fell from the 3.1% of GDP posted in 1999 to 2.4% in 2000. In most countries, real devaluations of local currencies, averaging 1.5%, occurred.

The most serious problems continued to be found in the labour market. The recovery of GDP in 2000 did not create enough new jobs to reduce the unemployment rate, which remained at almost 9%, very close to the historic maximum for the region. The disjunction occurred because growth was contracted in capital-intensive sectors and firms took steps to increase productivity. Nonetheless, the link between economic growth and job creation remains strong. The countries that grew fastest experienced a more positive impact on their labour markets (Mexico, Nicaragua and the Dominican Republic). In terms of real wages, the mean for the ten countries with information available rose by barely 1.5%.

Projections for 2001 indicate regional output will drop to about 3.8%, due mainly to the slowdown expected in the Mexican economy.



EXTERNAL SECTOR



Foreign trade enjoyed a vigorous recovery in 2000, which was more evident in the case of exports than imports, such that regional trade and current account deficits declined considerably. The latter fell from the equivalent of 3.1% to 2.5% of GDP.

Given the powerful influence of the rise in oil prices, these trends are reversed if the main oil exporting countries, Ecuador and Venezuela, are excluded from aggregate regional figures. Without them, the only countries to show a surplus on current account, the regional deficit would have increased.

The evolution of the petroleum market was also a decisive factor influencing the terms of trade. The six countries that export crude saw their terms of trade improve, while net importers experienced a deterioration, with the sole exception of Chile.

Although moderate, the deficit in factor income widened because interest payments rose, in line with international interest rates. Factor payments exceeded net inflows of capital, producing a negative transfer of resources for the second year in a row. The region showed a small increase in foreign currency reserves in 2000, of almost US\$ 3.5 billion.



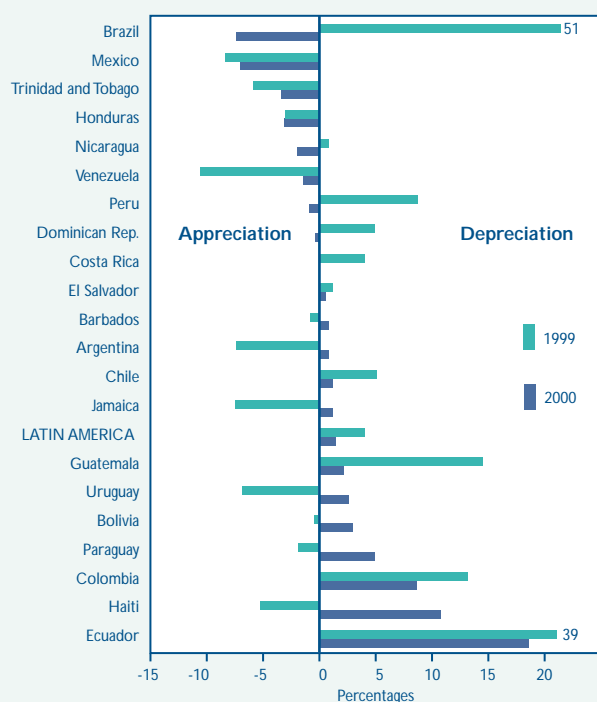
External Goods Markets Became More Favourable

The value of regional exports rose by more than 20% (17% if Venezuela is excluded), the largest rise in the past five years. Every country, except Costa Rica, Haiti and Paraguay, posted increases and these were almost always in the two-digit range. Venezuela, with an increase of over 60%, and Mexico, with over 20%, stand out. These increases were due to a combination of higher volume (11% for the region as a whole) and higher prices (over 8%). There were differences among countries, reflecting the variety of influences affecting each one. Apart from specific factors, the main ones were associated with external demand conditions.

First, conditions in external goods markets were favourable, although heterogeneous. The world economy continued to grow. The United States grew more than Europe, which favoured Mexico, the Caribbean and Central America.

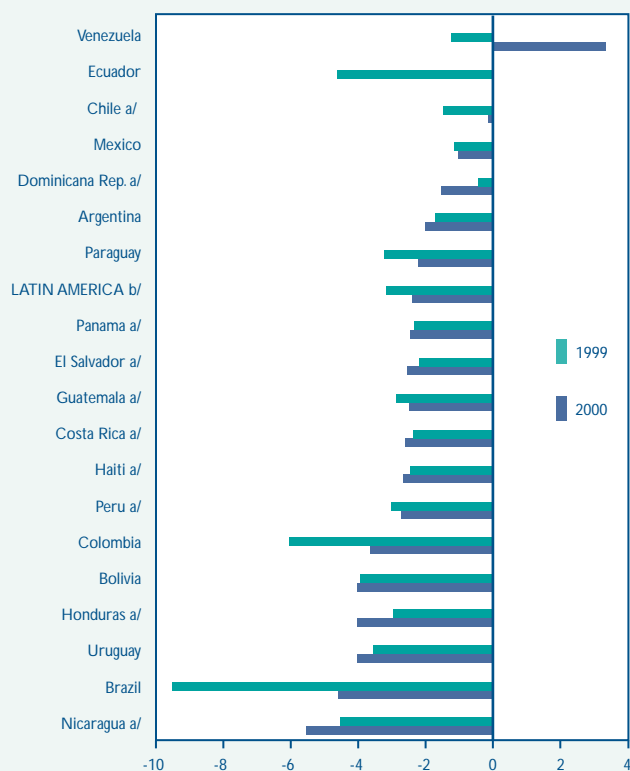
Second, unit values for exports rose, although with many exceptions, as the uneven performance of prices for export

Latin America and the Caribbean: Real exchange rates (Annual variation)



Source: ECLAC, on the basis of official figures.

Latin America and the Caribbean: Public-sector fiscal balance (Percentage of GDP)



Source: ECLAC, on the basis of official figures.
a/ Central government b/ Simple average

products indicates. The average price for exported crude during the first eleven months of the year was over 60% higher than the average for 1999, due to increased demand and the policy of limiting supply, applied by the Organisation of Oil Exporting Countries (OPEC). The combined price index for minerals and metals (excluding fuel) rose 8%, while a number of agricultural prices fell, especially coffee.

Third, reactivation in Latin America and the Caribbean stimulated trade within the region, which recovered the rhythm lost during the previous two years. During the first half, intraregional trade rose 19%, thanks to a 28% increase within the Andean Community, 18% within Mercosur, and 5% within the Central American Common Market.

Economic Reactivation Also Stimulated Imports

Imports rose in almost every country. Altogether for the region, imports rose more than 17%, due more to volume, which rose 12%, than prices, which rose almost 5%.

Volumes imported by different countries reflect trends in economic activity and, in some cases, the strength of the maquiladoras, which import many components.

The higher oil price made the purchases of net importing countries (which are the majority) more expensive. In contrast, as a result of the appreciation of the U.S. dollar, the value in this currency of products from industrialised countries fell by as much as 5%. Unit values on imports rose in every country, with the amount mainly determined by their dependency on oil purchases.

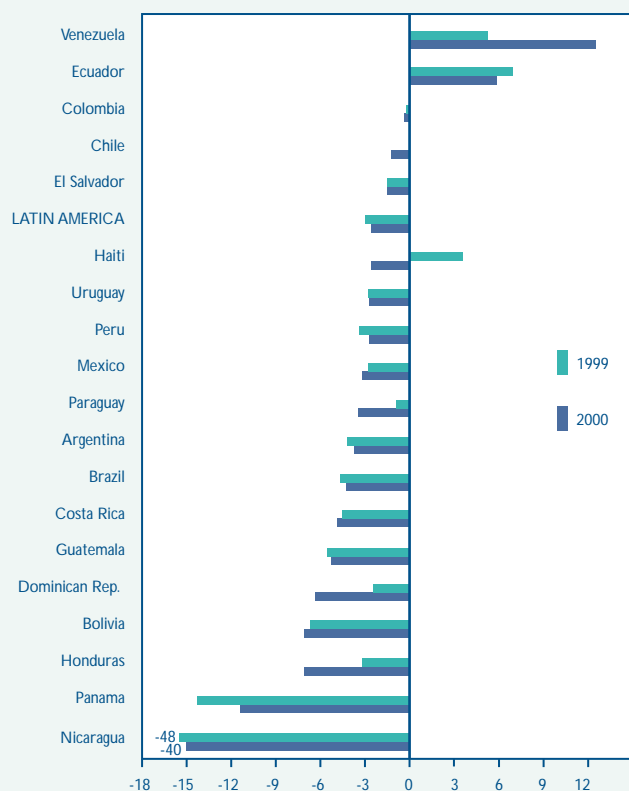
The combination of these unrelated factors had a wide range of consequences with regard to the value of imports. With the exception of Nicaragua and Paraguay, import value rose in every country by percentages that equalled or exceeded 20% in the cases of Chile, Mexico, the Dominican Republic and Venezuela.

Nonetheless, capital goods purchases fell in a significant number of countries, especially those with reductions or only moderate increases in domestic investment, mainly in South America (Argentina, Bolivia, Ecuador, Paraguay, Peru and Uruguay) and some Central American countries (Nicaragua and Panama).

Moderate Capital Inflows

Latin America and the Caribbean continued to experience serious restrictions in external financing, with volatile periods associated with trends in international financial markets, above all in the United States, as was evident in the bond market. As with the two-year period 1998-1999, a perception of greater risk associated with Latin American investments prevailed, and deepened from mid-October onward.

Latin America and the Caribbean: Current account balance (Percentage of GDP)



Source: ECLAC, on the basis of official figures.

In a year characterised by less liquidity in international markets, capital flows into the region reached US\$ 52 billion. The most dynamic was foreign direct investment, while other types of capital registered net outflows. For the fifth year in a row, inflows of foreign direct investment made a significant contribution to financing the deficit on the current account of the balance of payments.

While the gross value of bond issues between January and November 2000 approached US\$ 36 billion, they continued to be very volatile and took place primarily in the early months of the year and July. The cost of external financing during the first eight months of 2000 was around 11.5% annually, with little change, but began to deteriorate in September and by late November had reached 13%.

Until mid-2000, commercial bank credits showed no significant recovery from the sizeable withdrawals that resulted from international turbulence in 1998. Likewise, during the first

DOLLARIZATION IN ECUADOR

In March 2000 Ecuador began a complex process of dollarization, whose macroeconomic sustainability will depend on the stabilization of domestic prices, a decline in interest rates and the preservation of a competitive exchange rate.

Previously, the strong depreciation of the exchange rate (a nominal 272%), from December 1998 to January 2000, generated inflationary pressures with the Producer Price Index (PPI) rising 293%. The sharp contraction in domestic demand limited the rise in the Consumer Price Index (CPI) during the same period, which was 84% and opened a wide gap between both indices. This marks an accumulation of repressed inflation, and the announcement of dollarization alone was not enough to stop price increases, which reached over 2% monthly by the end of 2000. The CPI is expected to rise another 19% annually in 2001.


Dollar interest rates fell slightly, particularly after the agreement on public foreign debt. Between January and November 2000, the nominal passive reference rate fell from 9.13% to 7.20%, and the active from 15.99% to 15.66%. It remains high, however, and the spread rose, reflecting the persistent weakness of the financial system and the perception that country risk, while it has fallen, remains relatively high.

In a dollarized economy, devaluation ceases to serve as an instrument for facing external imbalances. Considering that by November the *sucre* lost almost half its real value since the setting of the exchange rate, the rise in domestic prices led to real appreciation of 39%. Inflation in 2001 will probably bring a new exchange rate appreciation of 13% (relative to the US). To better long-term competitiveness, it is now necessary to consolidate the institutional framework and encourage investment, not only in human capital but also in means of production.

half of the year, the recovery of investment into local stock markets slowed, revealing considerable volatility. In late 2000, the regional stock market index remained at 25%, less than the level posted in mid-1997.



Foreign Debt Fell Slightly

Foreign debt in Latin America and the Caribbean fell to around US\$ 750 billion, showing its first nominal reduction since 1988. Coefficients for debt as a share of exports of goods and services improved in 2000. The regional coefficient fell to 180%, down from 217% in 1999, although indicators for several countries continued to reveal heavy debt burdens. The ratio of interest payments to exports also fell somewhat. 

MACROECONOMIC POLICY

Regional macroeconomic policy has emerged from two years of crisis with qualitative changes, especially in those countries that adopted a floating exchange rate, which allowed them to respond more pragmatically to new conditions. The decisive factors were the decline in inflation and the greater credibility achieved by macroeconomic authorities as they consolidated domestic stability. Most of the countries that showed a strong slowdown in their economic activity during 1999 framed their macroeconomic policy for 2000 within a triangle, defined by the desire to make their monetary policy more flexible to accompany the reactivation of economic activity, although without sacrificing price stability; the will to reduce larger fiscal deficits inherited from the previous years; and the need to respond to fluctuations in international financial markets. This framework was further complicated by higher fuel prices and their impact on inflation.

Fiscal Deficits Have Been Reduced

A better economic environment and a more austere approach to fiscal policy helped to reduce the average fiscal deficit to 2.4% of GDP after reaching its highest rate for the past decade, over 3% of GDP in 1999. The improvement did not occur everywhere, however, and in over half the countries the deficit rose slightly. The main causes of these negative results were rooted in policies to reactivate economies and improve social services, combined with reduced revenues due to lower than expected economic activity. But the rise in the deficit was, on average, less than 0.5% of output, while those governments that improved their public accounts achieved improvements of almost 2% of GDP.

The recovery in public sector revenue was particularly noteworthy in the main oil exporting countries (Colombia, Ecuador, Mexico and Venezuela). In oil importing countries, the higher price had varied effects on revenue. In most, the impact was positive, including surpluses for state-owned refineries and distribution companies. Stronger economic activity and an increase in consumption led to a recovery of indirect tax revenue, while the recovery also had favourable effects on direct taxes, which complemented efforts to reduce tax evasion.

Government spending slowed, with those countries that reduced expenditure often sacrificing investment. Lower domestic interest rates and a more stable exchange rate contributed by reducing the weight of debt service. Tendencies for expenditure to rise stemmed from pressures to increase spending for social sectors such as health care, social security and education, or projects to improve infrastructure.

Foreign Exchange Markets Continue to Adjust, Although More Calmly

Foreign exchange markets showed less volatility in 2000, after the sometimes violent depreciation of some currencies and

the changes in regime that marked 1999. The tendency toward real devaluation (1.5% on average) continued, although it was much weaker than in 1999, and the pace slowed to zero by year's end. There were, however, several periods of volatility, associated with increases in international interest rates and a greater perception of risk on sovereign debt, combined with extra-economic factors in some countries.

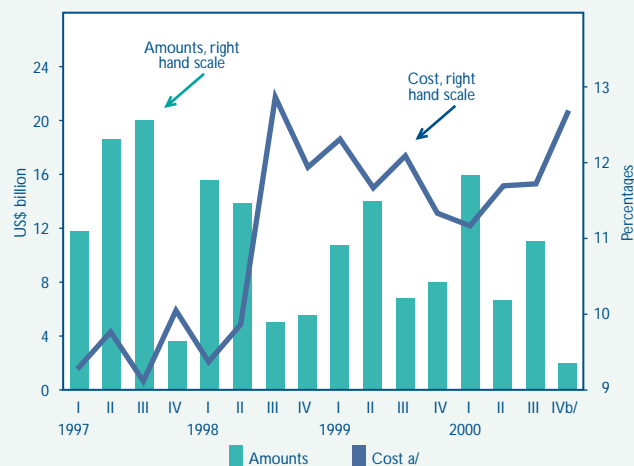
Once again this regional panorama hides important differences. The currencies of some Caribbean countries (Haiti and, in reference to its own historical context, Jamaica) saw significant devaluations. At the same time, real appreciations of around 7% were observed in the two largest economies, Brazil and Mexico. The significant fluctuations among the main international (the dollar and the euro) or regional (real) currencies, which occurred between 1999 and 2000, reduced the competitiveness of exports from Argentina and Uruguay.

While flexible regimes became more common in 1999 and four countries gave up exchange-rate bands to allow their currency to float, in 2000 changes brought dollarization. Ecuador opted for the formal dollarization of its economy, and El Salvador legalized the domestic use of the dollar around a fixed parity with the colón.

Monetary Policy is Less Austere

The trend toward a certain normalisation of international financial markets, apparent since late 1999, allowed governments to adopt a less austere approach in those countries that suffered recession the year before and wanted to support reactivation with a suitable level of liquidity.

Latin America and the Caribbean: International bond issues



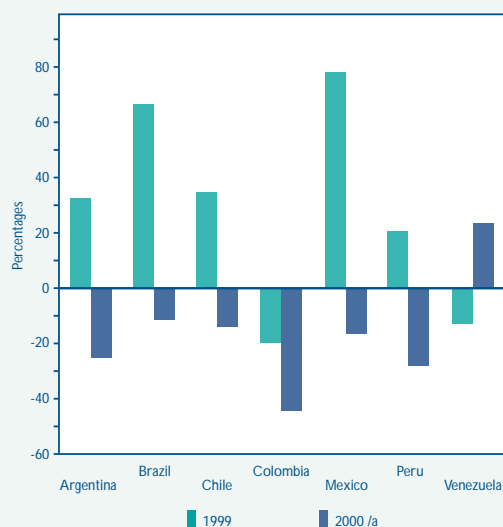
Source: ECLAC, on the basis of official figures and data provided by International Monetary Fund, JPMorgan and Merrill Lynch.

a/ The sum of the average spread on the bond issue plus the yields on long-term United States Treasury bonds.

b/ October and November

Latin America and the Caribbean: Stock exchange prices

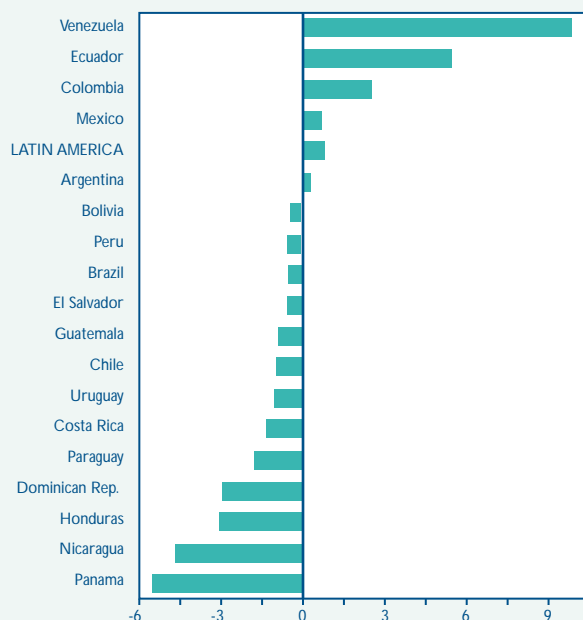
(Variation in indices expressed in dollars)



Source: ECLAC, on the basis of figures from the International Finance Corporation. a/ Mid-December.

Latin America and the Caribbean: Effect of the Rise in Oil Prices

(Percent of GDP)



Source: ECLAC, based on official statistics.

The ability to make monetary supply more flexible remained limited by conditions affecting external liquidity. In Venezuela rapidly rising reserves required measures to dampen a strong increase in liquidity, and in Mexico, monetary policy became more restrictive to avoid overheating the economy.

In contrast, countries that continued to face strong external constraints could not ease monetary policy. This was the case in Argentina, given the characteristics of its exchange rate regime. In others (Bolivia, Peru), where recovery was led by

COUNTRIES RESUME ECONOMIC REFORMS


With the recovery in economic activity, privatizations regained the impetus of the years prior to the Asian crisis. Income from privatizations rose to over US\$ 15 billion, some US\$ 3 billion more than the previous year. The situation varied enormously by country, however, given that 80% of the total sales originated in Brazil. European multinationals, particularly those from Spain, once again played a leading role.

Countries where the process of privatization had stagnated for several years (Ecuador, Paraguay) adopted new laws to permit faster progress in future. Concessions now play a more prominent role, in situations where most state firms have already been sold, while the need to invest in infrastructure remains high.

Regarding trade, the use of protectionist measures fell and there was a gradual decline in tariffs, as per subregional agreements. Within Mercosur, a process of macroeconomic coordination began, designed to strengthen regional integration and to reduce member countries' vulnerability to fluctuations on the international market. Bilateral trade agreements proliferated, with Mexico particularly active in this field. The South American Summit's decision to complete negotiations between Mercosur and the Andean Community to create a South American free trade zone by 2002 was notable.

While several countries continued their efforts to strengthen their financial systems (Colombia, Ecuador, Mexico), by year's end some countries still experienced crises (Nicaragua, Peru). Chile progressed toward deregulating its capital market, by eliminating the minimum one-year required deposit on foreign investment inflows and the capital gains tax affecting non-residents. Costa Rica and Nicaragua adopted laws to modernize their pension systems and strengthen the financial position of pension funds. Argentina and Ecuador made an effort to make their labour market more flexible and reduce labour costs.

exports with no rise in domestic demand, the increase in the primary monetary supply did not bring with it a similar expansion in the amount of money in circulation, because domestic credit stagnated.

The failure of domestic credit to increase in most countries was a serious limit on the recovery of growth rates. It was due mainly to the failure of domestic demand to pick up and to caution of the still fragile financial sector in terms of making new loans. 

DOMESTIC ECONOMIC PERFORMANCE

Growth rates in the region increased substantially after the poor results of the previous two years, and in most countries inflation fell below the already low levels achieved in the recent period. Job creation rose slightly, although it did not permit a significant decline in unemployment. Prospects for 2001 suggest growth will be somewhat slower than in 2000.

Regional Output Shows Moderate Recovery

This year, economic activity in the countries of Latin America and the Caribbean should reach 4%, bringing the annual average for the decade to 3.3%. The recovery in 2000 contrasts with almost zero expansion in 1999 and modest increases in 1998, although it will remain below 1997, when the region achieved some of the strongest results in the past 25 years. Per capita output should rise 2.4%, for an accumulated increase of almost 17% for the 1990s.

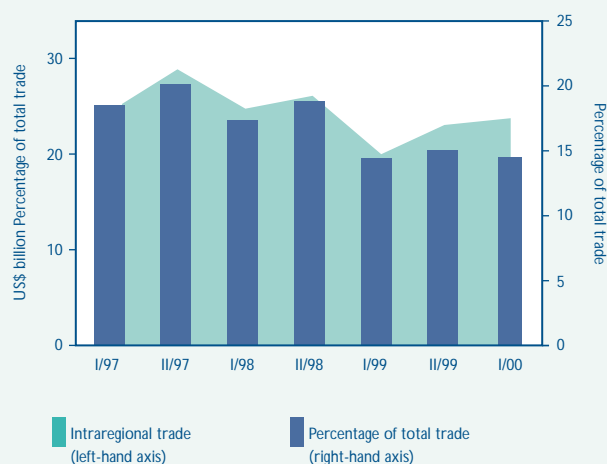
This year's growth was based mainly on exports, but consumption and investment also contributed. The adverse economic environment that has affected the region since late 1997 has not entirely disappeared, however, as most countries continue to face restrictions on their access to external finance. Oil-exporting countries were favoured by a significant rise in the price of hydrocarbons, which accentuated the dynamism of the Mexican economy, but above all allowed Argentina, Colombia, Ecuador and Venezuela to counterbalance the recessionary pressures that have affected their economies recently. Many non-oil exporting countries faced deteriorating terms of trade, which made reactivation more difficult.

Given the size of their economies, the strong growth in Mexico and moderate growth in Brazil were very important in the reactivation of regional output. Unlike 1999, differences between the countries of the northern and southern parts of the region were less apparent, although the first group continued to include the two most dynamic economies. Thus, the Dominican Republic had the highest growth rate (8.5%), extending its strong performance throughout the 1990s. Mexico's economy grew 7%, an achievement that further strengthened the pace of growth it has enjoyed since 1996, thanks to exports to the North American market. Recovery in Honduras was noteworthy, after economic activity plunged in 1999 due to Hurricane Mitch. Other countries of Central America and the Caribbean posted more moderate increases.

After falling almost 1% in 1999, activity recovered in the countries of South America, rising 3% overall. Brazil's economy grew by 4%, based in part on the reactivation of its manufacturing industry. In Colombia, Ecuador and Venezuela, output recovered after suffering declines in 1999, but without achieving sizeable

increases, while Chile experienced a significant turnaround. Argentina's stagnation was due to a further fall in investment, despite the limited increase in consumption and the volume of exports.

Latin America and the Caribbean: Intraregional trade during the 1990s



Source: ECLAC, on the basis of official figures.

Moderate Growth Expected for 2001

The economies of Latin America should continue their recovery in 2001, although somewhat more slowly (3.8%), given that prospects for the international economy are less encouraging, because the United States is expected to grow more slowly. This would particularly affect Mexico, but that country should nonetheless continue to enjoy growth above the regional average. In South America, Brazil will probably keep up its current pace of expansion, with exports the main factor in this performance. Colombia, Ecuador, Venezuela and Uruguay should improve their performance, but the prospects for Argentina and Peru are modest. In Central American and Caribbean countries, GDP should rise at a slightly faster rate than in 2000.

Savings and Investment Improve Slightly

Investment picked up in 2000, after a significant fall in 1999. The average growth rate of investment for the region (5.5%) was similar to that throughout the 1990s. The level of total investment in 2000 (21.8% of GDP), however, is still well below its 1998 level (23.9%). National savings rose, as external savings shrank to 2.5% of regional GDP.

In terms of investment and external and domestic performance, countries tended to fall within one of three groups:

- High growth in investment (above the regional average): the Dominican Republic, El Salvador, Honduras and Mexico. This group as a whole enjoyed economic growth of over 6% this year, which appeared to require increased investment.

- Moderate growth in investment (from 0 to the regional average): Bolivia, Brazil, Chile, Ecuador, El Salvador, Haiti, Peru and Venezuela. This group saw economic growth of zero or less last year, and so could grow more easily through increased use of idle capacity.

- Negative growth in investment: Argentina, Costa Rica, Guatemala, Nicaragua, Panama and Uruguay. Here, two sets of countries are apparent: those of South America, whose economies performed poorly, and a group of Central American countries with normal economic performance, but low rates of investment due to specific situations (in Guatemala, very high investment in previous years due to natural disasters, and trends in foreign direct investment, in Costa Rica).

 **Inflation Remained at Low Levels**

The region's average inflation reached about 9% in 2000, down slightly from the previous three years. Seventeen of the 22 countries with information available had single-digit inflation, and most saw the pace of price increases decline or remain low. Only in Ecuador did inflation pick up noticeably, going from 60% in 1999 to 97% in 2000. Other countries, such as Bolivia, Chile, El Salvador, Paraguay and Uruguay, saw a slight rise in their low rates of inflation, mainly because of the strong increase in oil prices. With the exception of Ecuador, exchange rates in several countries over the past two years had no major effect on inflation, in spite of the recovery in production this year.

Argentina again stood out, with a new drop in consumer prices. Barbados and Panama maintained their traditional low inflation, of 1% to 2%. Another six countries (Bolivia, Chile, El Salvador, Guatemala, Peru, Trinidad and Tobago) also achieved inflation rates of under 5% and, in spite of higher inflation in almost all of them, showed clear signs of consolidation in their stabilization processes.

Several countries showed particular improvement. In 1999 Uruguay achieved inflation under 4% and its slight rise in 2000 does not threaten its advances toward stabilization. In Colombia, the rate of inflation (9%) was the lowest in the past 30 years. Mexico also achieved improvements, returning to single-digit inflation after five years. Brazil achieved low price increases in 2000, in spite of a significant devaluation in 1999 and the reactivation of its economy. In Venezuela, inflation fell from 20% to 14%. Ecuador's situation is more complicated, due to its profound economic and financial crisis. The dollarization process introduced in this country, however, produced a noticeable slowdown in the pace of monthly price increases.

The recovery in economic growth at the regional level did not produce a noticeable improvement in labour markets. The employment rate rose slightly, from 52.7% to 53.0% in ten countries, but still remained at the lowest level in the past decade, except for 1999. Because recovery was accompanied by an increase in the labour supply, however, unemployment remained virtually unchanged at a very high level, the second highest level in the past ten years: 8.6%, compared to the high of 8.7% reached in 1999.

Real average salaries did not improve significantly either, although in some cases progress toward reducing inflation and productivity gains favoured remuneration. Thus, real salaries in the formal sector rose 1.5% on the average for the ten countries for which information is available.

The region's rather poor performance in terms of employment and wages masks a wide range of behaviour among its economies, which can be divided into three groups.

The first includes countries where relatively high growth had a favourable impact on labour market indicators. In Mexico, the employment rate continued to rise and, in spite of an increase in the supply of labour, the open unemployment rate continued to fall. Even so, real salaries are still 15% lower than they were before the 1994/95 crisis. Brazil experienced its first increase in the employment rate since 1995. Nonetheless, because the participation rate also rose, the impact on the unemployment rate was limited. The significant increase in employment (4.3% between August 1999 and August 2000) in the six main metropolitan areas was concentrated in occupations not covered by social and labour legislation. But formal wage labour also expanded: 4.7% in the formal manufacturing sector from December 1999 to September 2000, after falling almost 25% between 1990 and 1999. In Nicaragua, high economic growth had a positive impact on unemployment and wages, while in the Dominican Republic strong GDP growth brought a noticeable increase in employment, but a limited impact on the unemployment rate as more people joined the workforce.

The second group includes countries whose macroeconomic performance improved over 1999 without having a noticeably positive effect on employment and unemployment. Labour demand remained weak due to a combination of factors: the concentration of economic growth in sectors that are not labour intensive and the weakness of sectors that normally hire large numbers of workers, such as construction and small business; the typical lag in the hiring of labour upon emerging from an economic crisis; and the reaction of many companies to adverse competitive conditions, which consisted of improving productivity by cutting back on personnel. Thus, occupation rates fell in Chile and Venezuela, for example, in spite of economic

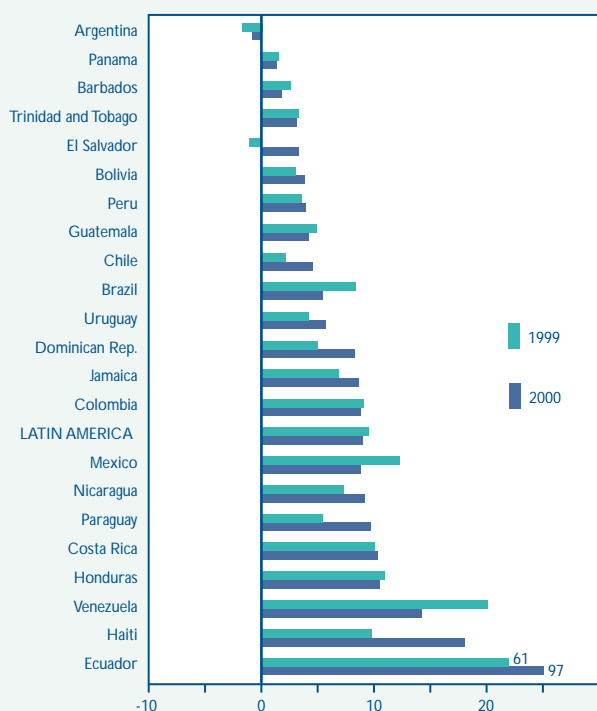
growth rates that were clearly higher than in the previous year. In contrast, in Colombia the occupation rate rose slightly, although labour demand was weak and new employment was mainly concentrated in the informal sector. Moreover, due to the simultaneous increase in labour supply, the unemployment rate showed no improvement. In Ecuador, although there were slight improvements in the employment and unemployment rates, the moderate recovery in growth did not stimulate labour demand and new jobs were primarily in the informal sector, while real salaries fell yet again.

The third group is composed of countries with weak economic growth, which led to a low employment rates and an increase in unemployment, along with stagnating wages. Examples include Argentina, Bolivia, Costa Rica, Paraguay and Uruguay. In Argentina formal employment fell in construction, retail commerce, agriculture and some manufacturing sectors, while financial and real estate activities rose somewhat. In Costa Rica the abrupt slowdown in growth reduced employment creation. Only the lower rate of participation in the workforce made it possible for open unemployment to fall.



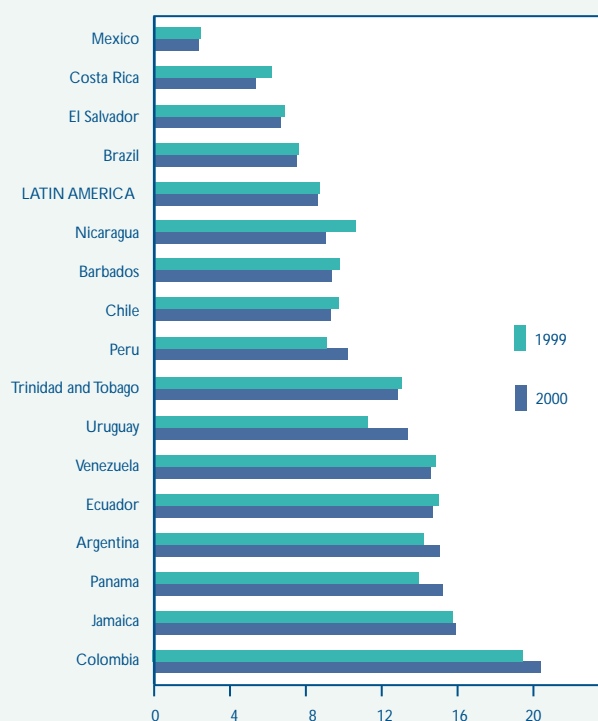
Latin America and the Caribbean: Consumer prices

(Twelve-month rates of variation)



Latin America and the Caribbean: Urban unemployment

(Average annual rate)



Source: ECLAC, on the basis of official figures.
a/ Most recent period available.

Source: ECLAC, on the basis of official figures.

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The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region's history. The symbols are engraved on the outside of the conference rooms at ECLAC headquarters in Santiago, Chile.



Fell's cave



Astronomic observatory



Mining and trade



Immigration



Mayan numbers



Hands: Cañadon's cave

STATISTICAL APPENDIX

Latin America and the Caribbean: Total and per-capita gross domestic product. (In percentage, based on values in constant 1995 dollars)

	Annual growth rates						Annual average rate	
	1998		1999		2000 a/		1991-2000	
	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita
Latin America and Caribbean b/	2.3	0.6	0.3	-1.3	4.0	2.4	3.3	1.5
Subtotal (19 countries) b/	2.3	0.6	0.3	-1.3	4.0	2.4	3.3	1.5
Argentina	3.9	2.5	-3.4	-4.6	0.0	-1.2	4.2	2.9
Bolivia	5.5	3.1	0.6	-1.7	2.0	-0.1	3.8	1.4
Brazil	0.2	-1.1	0.9	-0.4	4.0	2.6	2.6	1.2
Chile	3.9	2.5	-1.1	-2.4	5.5	4.3	6.6	5.0
Colombia	0.5	-1.4	-4.3	-6.0	3.0	1.2	2.6	0.6
Costa Rica	8.0	5.3	8.0	5.4	1.5	-0.9	5.0	2.1
Cuba	1.2	0.8	6.2	5.8	5.5	5.1	-1.4	-1.9
Dominican Republic	8.2	6.5	8.3	6.5	8.5	6.8	6.3	4.4
Ecuador	0.4	-1.6	-7.3	-9.0	2.0	0.1	1.7	-0.4
El Salvador	3.5	1.4	3.4	1.3	2.5	0.5	4.6	2.5
Guatemala	5.0	2.2	3.6	0.9	3.5	0.8	4.1	1.4
Haiti	3.1	1.3	2.3	0.5	1.0	-0.6	-1.0	-2.8
Honduras	2.9	0.1	-1.9	-4.5	4.0	1.1	3.1	0.2
Mexico	4.9	3.2	3.7	2.0	7.0	5.5	3.5	1.7
Nicaragua	4.1	1.3	7.0	4.2	5.5	2.5	3.3	0.5
Panama	4.4	2.7	3.0	1.3	2.5	0.9	4.4	2.6
Paraguay	-0.4	-3.0	0.5	-2.1	1.5	-1.0	2.2	-0.5
Peru	-0.4	-2.1	1.4	-0.3	4.0	2.3	4.2	2.4
Uruguay	4.6	3.8	-3.2	-3.9	-1.0	-1.7	3.0	2.3
Venezuela	0.2	-1.8	-6.1	-7.9	3.5	1.4	2.0	-0.1
Subtotal Caribbean	2.7	1.8	3.4	2.6	3.1	2.2	1.9	1.0
Antigua and Barbuda	3.9	3.9	4.6	3.0	3.5	3.4	3.3	2.7
Barbados	4.8	4.1	2.5	2.1	3.0	2.5	1.4	0.9
Belize	1.3	-1.3	6.4	4.2	6.0	3.3	4.1	1.5
Dominica	2.3	2.3	0.9	0.9	–	–	2.1 c/	2.1 c/
Granada	7.3	6.8	7.8	7.3	–	–	3.5 c/	3.2 c/
Guyana	-1.7	-2.7	3.0	1.9	3.0	1.8	5.3	4.3
Jamaica	-0.7	-1.6	-0.2	-1.1	0.5	-0.4	0.1	-0.7
Saint Kitts and Nevis	1.0	1.0	2.8	2.8	–	–	4.1 c/	4.3 c/
San Vicente and the Granadines	5.7	4.8	4.0	3.1	–	–	3.2 c/	2.3 c/
Santa Lucia	2.7	1.3	3.5	2.1	–	–	2.2 c/	0.9 c/
Suriname	10.7	9.9	-1.3	-1.8	–	–	1.7 c/	1.3 c/
Trinidad and Tobago	4.4	3.9	6.9	6.3	5.0	4.4	3.0	2.3

Source: ECLAC on the basis of official figures.

Note: Totals and subtotals do not include those countries for which no information is given.

a/ Preliminary estimate.

b/ Does not include Cuba.

c/ Refers to 1991-1999.

1 Adolescencia y juventud en América Latina y el Caribe: problemas, oportunidades y desafíos en el comienzo de un nuevo siglo. Población Series, No. 9 (LC/L.1445-P, Spanish, US\$10). Starting from the paradox that although demographic and other trends make young people crucial to future development, they find themselves increasingly marginalized, this study looks at key issues such as poverty and isolation, reproduction and social roles, health care and drug addiction, work and citizenship, before proposing policy changes to strengthen the role of youth in Latin American societies today.

2 Producción, tráfico y consumo de drogas en América Latina, by Irma Arriagada and Martín Hopenhayn. Políticas Sociales Series, No. 41 (LC/L. 1431-P, Spanish, US\$10). The authors review Latin America's involvement in the production

of cocaine-based drugs, opium and heroin, then evaluate the region's current drug policies, and recommend steps for drug prevention, control, treatment, and coordination.



3 Do private sector deficits matter?, by Manuel Marfán. Temas de coyuntura Series, No. 11 (LC/L. 1435-P, English, US\$10). This study examines the macroeconomic consequences of excessive, non-fiscal expenditure and

inconsistent policy targets, recommends specific policy responses, and provides an analysis of tax alternatives. [www](#)

4 Fortaleciendo la institucionalidad financiera en Latinoamérica, by Manuel Agosin. Temas de coyuntura Series. No. 9 (LC/L. 1433-P, Spanish, US\$10). Agosin examines ways Latin American countries could establish a regional fund to cushion the impacts of global financial crises, while financing temporary balance of payment problems, thus complementing the efforts of the IMF. [www](#)

5 Las mujeres chilenas en los noventa, Hablan las cifras. (S.00.II.G.92, Spanish, co-published by ECLAC and SERNAM, National Women's Service of Chile, US\$20). A look at the status of Chilean women in terms of demography, economic opportunity, education, health and welfare,

political and social participation, existing policies to promote equality, and policy proposals for the future. [www](#)



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MONTH	EVENT	VENUE
JANUARY		
22 - 25	Thirteenth Regional Seminar on Fiscal Policy and Complementary Workshop on Evaluating the Administration of Public Spending, ECLAC /International Monetary Fund (IMF)/World Bank/Inter-American Development Bank (IDB), sponsored by the Chilean Finance Ministry	ECLAC Headquarters, Santiago, Chile
MARCH		
6 - 7	Meeting of the CDCC Monitoring Committee (Caribbean Development and Cooperation Committee), ECLAC Port-of-Spain	ECLAC Sub-regional Office for the Caribbean Port-of-Spain, Trinidad and Tobago
7 - 8	Meeting on Reforming the International Financial Architectural Reform: Emerging Market Perspectives, ECLAC /Institute for Global Economics (IGE)/Korea Institute for International Economic Policy (KIEP)	ECLAC
13 - 14	Seminar on Overcoming Poverty in Chile, ECLAC /Chilean Government	ECLAC
15 - 16	(to be confirmed) Seminar - Road to Competitiveness: Meso and Macro-Economic Levels - The Institutional Route, during the Annual General Meeting of the IDB	ECLAC
17	Seminar - Women at Work: a Challenge for Development, IDB/Chilean Government/ ECLAC	ECLAC
22	Presentation of "Género, propiedad y empoderamiento: tierra, Estado y mercado en América Latina", a book by Magdalena León and Carmen Diana Deere, with the support of ECLAC /FAO/SERNAM/CEDEM	ECLAC
APRIL		
12 - 13	(date to be confirmed) Thirty-Second Meeting of the Presiding Officers of the Regional Conference on Women in Latin America and the Caribbean, ECLAC	San José, Costa Rica
17	Tribute to the Hundredth Anniversary of the Birth of Raúl Prebisch, ECLAC	ECLAC
25 - 27	First Meeting of the Americas Statistics Conference, ECLAC	ECLAC

